



Auditor of Public Accounts
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Edelen Releases Audit of Knox County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Knox County Fiscal Court for the fiscal year ended June 30, 2012. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The County should improve internal controls over the road department. During the course of auditing procedures it was noted that the County lacks controls in the road department. We recommend that the County consider some of the following suggestions to assist in establishing better oversight over the road department and activities thereof.

1. Develop work orders that originate from the office of the Judge for projects as they arise that has an approval signature from the J/E or designated person.
2. Road logs should be kept in all road vehicles that accounts for nearly every mile/hour the equipment is used that includes location, purpose, and be signed by the operator.
3. Gravel logs should be kept at the Road Department that has a description of the truck, operator, and location that the gravel is to be hauled. In addition, weight tickets for gravel being hauled to the road department should be signed and logged.
4. Monthly reports should be submitted to the Fiscal Court and documented in the minutes that describes at minimum the location and work performed during the month in detail.

We recommend that the County take steps in order to establish internal controls so that those charged with governance of the County are informed and can have better oversight over County Road Department operations.

County Judge/Executive's response: We agree.

The Fiscal Court should maintain complete and accurate capital asset schedules to comply with GASB 34 requirements and inventory capital assets periodically . The County did not have a completed capital asset schedule for fiscal year ended June 30, 2012. A list of capital asset additions, retirements, and disposals were not properly maintained. The Knox County Hospital building and related property are not included on the capital asset listing because historical cost or estimated historical cost cannot be determined. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Furthermore, we believe the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As other assets are retired or disposed of, the assets should be removed from the listing.

Also, the failure to tag capital assets increases the risk of inaccurate reporting. Many capital assets have similar descriptions, and often serial numbers are difficult to locate or read during routine inspections. Therefore, the lack of unique tags for asset identification increase the risk of over/under reporting like assets.

We recommend the County maintain complete and accurate capital assets schedules and records to comply with GASB 34 requirements. The Fiscal Court should take a physical inventory of its capital assets on a regular basis to ensure that only active, in-service machinery and equipment is included on the County's financial statements. We also recommend the County implement policies that will identify and track additions, retirements, and disposed assets for the purpose of the capital asset schedule. These procedures will ensure that fixed assets are properly stated and that depreciation is being calculated accurately.

County Judge/Executive's response: We agree.

The County should ensure that the original budget and final budget is properly recorded and balanced on the quarterly reports. As of the June 30, 2012, the Quarterly Report showed that the County's budget was out of balance in multiple funds. By reviewing the original budget, it was found the original budget in the General Fund was inappropriately recorded. In addition, it was noted that several funds were out of balance due to errors in entering information in the accounting system.

We recommend that the County ensure the original budget is properly recorded on the quarterly reports. We further recommend that the final budget be reviewed in order to ensure that the budget remains balanced.

County Judge/Executive's response: We agree.

The County did not follow proper purchase and procurement procedures. During our test of expenditures, we noted the following deficiencies:

- Of the one-hundred forty-nine (149) invoices selected for testing, five (5) invoices were not paid within thirty (30) days, and five (5) PO's were dated after the invoice.
- Expenditures from the road fund did not have signed delivery tickets to support the invoices.

KRS 65.140 requires any purchaser that receives goods or services to pay for those goods and services within thirty (30) working days of receipt of a vendor's invoice. Good internal controls dictate that adequate documentation be maintained to support all expenditures and signed delivery tickets be maintained to support the invoices. All original vendor invoices should be maintained including any supporting documentation which includes fuel receipts and road materials load or scale tickets.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or errors will occur and go undetected by the Fiscal Court. Without proper procedures in place to mitigate this risk, the Fiscal Court is exposing public resources to potential misstatements and/or errors. We recommend the Fiscal Court maintain all original vendor invoices including any supporting documentation, approve all expenditures by Fiscal Court, and pay all invoices within 30 days.

County Judge/Executive's response: We agree.

The County should comply and ensure that the same level of health insurance benefits are provided to all county employees as stated in Kentucky Attorney General Opinion (OAG) 94-15. During the testing of payroll, auditors noted that county employees are not receiving the same level of health insurance benefits. Elected officials and one appointed employee are receiving county-paid family coverage while others are paying for the extra cost for family coverage. During fiscal year ended June 30, 2012, the County paid as much as \$655 per month per employee for the additional costs of the family plan over the single plan. The County's Administrative Code states the County promotes equal opportunity in matters of compensation and benefits. It further states the County pays for an individual's health insurance policy but does not add that certain individuals will receive the family benefit as well. In September 2006, the County amended and approved an Administrative Code in which a provision was added that states, "The County pays the premium for all individual health insurance policies offered by the county; except, however, the county will pay the premium for family health insurance plans for all elected county officials, senior executives and department heads as may be negotiated in their compensation package."

In June 2007, the County amended and approved an Administrative Code in which the above provision still remains. OAG 94-15 states, “the basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute.” We recommend the Fiscal Court follow the advice as expressed in OAG 94-15 and ensure the same level of health insurance coverage for all employees.

County Judge/Executive’s response: Our County Attorney’s opinion is we can separate county employees and elected officials.

The Fiscal Court lacks adequate segregation of duties over payroll processes. The Fiscal Court has a lack of segregation of duties over payroll processes. The Finance Officer performs the entire payroll function including, among other duties, preparing payroll records, preparing payroll checks, and posting payroll expenses. Payroll checks are signed by the Judge/Executive or Deputy Judge/Executive and the Treasurer. However, the checks are not agreed to the payroll ledgers by the check signers. No documented review or compensating controls exist over these areas.

Adequate segregation of duties would prevent the same person from having a significant role in the preparation of payroll. Lack of segregation of duties increases the Fiscal Court’s risk of misappropriation of assets, errors, and inaccurate financial reporting. We recommend the Fiscal Court strengthen internal controls by segregating these duties. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing source documents.

County Judge/Executive’s response: We agree.

The Fiscal Court should provide adequate oversight for fuel purchases made with credit cards. During our review of expenditures, we noted several county departments used credit cards for fuel purchases. However, original invoices were not retained and compared to the monthly statements before payment was made. In addition, the odometer readings reported on the monthly statements appear to have been entered incorrectly. Without these original invoices and accurate odometer readings, the Fiscal Court cannot ensure the accuracy of the monthly statements or the reasonableness of fuel purchased for individual vehicles.

We recommend original invoices be retained for fuel purchases and these invoices be reconciled to the monthly billing statement prior to payment being made. In addition, we recommend controls be put in place to require that accurate odometer readings be used when fuel is purchased.

County Judge/Executive’s response: We agree.

Purchase orders should be properly prepared and approved prior to making purchases. During our review of internal controls, we noted purchase orders were not always prepared before the actual purchase date and did not contain pertinent information such as description,

account number, purchase amount, and date. Per the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual, purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head. Also, purchase requests shall indicate proper appropriation account number to which the claim will be posted. We recommend an approved purchase requisition and purchase order be obtained prior to items being ordered or services received to determine if adequate funds and budget appropriations are available for the purchase. We also recommend purchase orders include all the necessary information such as date, description, appropriation account number, and signature of approval.

County Judge/Executive's response: We agree.

Material prior period adjustment made to the beginning balance as a result of debt not being reported in the prior year. On April 28, 2011, the Fiscal Court obtained a line of credit up to \$1,000,000 to finance the operation of the Knox County Hospital. This debt was not recorded in the prior year audit or quarterly report. However, in the current year this debt was correctly reported on the 4th Quarter Report. The interest is payable semiannually at a rate of 6.25%. The principal amount outstanding and resulting prior-period adjustment to the June 30, 2012 was \$997,726.

We recommend that the County ensure that all debt be recorded and the quarterly reports be reviewed to ensure accuracy.

County Judge/Executive's response: Has been completed and quarterly reports done.

The Jailer should prepare an accurate annual report and bank reconciliations for the Jail Canteen Account. During the testing of the Jail Canteen Account, we noted the following deficiencies:

- The Jailer presented an annual financial statement to the Treasurer as required, however, it was not detailed enough to accurately represent the financial activity for the year in the canteen account.
- Bank Reconciliations performed appear to be on accrual basis instead of cash basis of accounting.

We recommend the Jailer comply present an accurate and complete annual report and perform bank reconciliations that agree with the annual report.

County Judge/Executive's response: We agree.

County Jailer's response: We are working on making more detailed reports.

The Knox County Jail lack adequate segregation of duties over accounting functions. As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts and disbursements processes, record-keeping, report preparation, and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The Jailer's bookkeeper prepares and deposits the receipts, prepares and signs checks, posts to the ledger, prepares reports, and performs the bank reconciliations. However, the Jailer does review bank reconciliations and reports on a regular basis.

To adequately protect employees in the normal course of performing their assigned functions and to protect the Fiscal Court against inaccurate financial reporting, we recommend the Jailer separate the duties in preparing and depositing receipts, preparing and signing checks, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

County Judge/Executive's response: We will talk to Jailer.

County Jailer's response: We are working on correcting these findings.

The audit report can be found on the [auditor's website](#).

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The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

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